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SUBJECT: TAMIL NADU: ECONOMIC GROWTH, BUT IRRITANTS REMAIN

11. (SBU) SUMMARY: The growing FDI inflow into Tamil Nadu, particularly in the manufacturing sector, the support the state receives from the Center due to the synergic political arrangement between the DMK and the Congress parties, the bipartisan support for economic development available in the state, the comfortable energy situation -- all form part of the picture Tamil Nadu officials presented to visiting Embassy New Delhi Economic Minister Counselor John Davison. Some businesspeople, particularly the US power producers, however, were less bullish: they pointed to the lingering disputes with the state Electricity Board and the need for new projects to step up generation capacity. Davison also leveraged meetings with influential contacts to raise Mission concerns such as the recent GOI disqualification of Motorola from the BSNL tender, cable broadcasting industry concerns, and other issues. END SUMMARY.

UPBEAT OFFICIALS, BULLISH INVESTORS

12. (SBU) Tamil Nadu Chief Secretary Tripathy appeared pleased with the attention the state is receiving these days: two days prior to his November 6 meeting with Davison, Prime Minister Singh and Congress President Sonia Gandhi were in the Chennai suburbs to inaugurate a Flextronics facility, visit the new Nokia plant and lay the foundation for a \$10 million Automotive Research Center. Tripathy pointed to the new investments that have come in recent months -- Motorola, Dell, Hyundai (expansion) -- and the many more in the pipeline. "After an MOU is signed, we make sure that work begins within a month", he said. According to the Chief Secretary, infrastructure development is uppermost in the state administration's mind, including ways to develop the Tamil Nadu ports. While the state has sufficient power generation as of now, the government is planning to generate new projects with Australian or Indonesian coal.

BUT SILENT ON POWER DISPUTES

13. (SBU) According to Tripathy, problems such as the continuing inflow of Sri Lankan refugees (SEPTTEL), the perennial river water disputes with neighboring states and the funding shortfall for infrastructure development are not very serious issues. While conceding that fund shortage does hit the much-needed but less visible projects such as storm water drains, other major sectors such as roads, ports and power, he stated, have no resource crunch. Tripathy did not comment on the "legacy issue" of American power companies' disputes with the state Electricity Board. Davison raised the issue of possible U.S. wheat imports which could greatly benefit millers and the increasing customer base in Tamil Nadu. Tripathy indicated this is an area where Tamil Nadu leadership wants to be helpful.

TALENT POOL RESULT OF YEARS OF INVESTMENT IN EDUCATION

14. (SBU) In a separate meeting, key officials such as state IT Secretary Chandramouli and the Managing Director of Tamil Nadu

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Industrial Development Corporation (TIDCO) Ramasundaram described factors that helped the state emerge as a preferred investment destination in software development services, consumer electronics, automobiles and textiles. According to the officials, years of public investment and bipartisan support for education has ensured the availability of a large productive talent pool. Pioneering programs such as noon-time meals and affirmative action (reservation of seats) for backward castes significantly enhanced both enrollment in schools and literacy rates. They added the already power-surplus state proposes to add another 4000 megawatts to meet anticipated future demand. Industry-specific Special Economic Zones will also be established. To avoid problems of land acquisition, land purchases are to be kept at market rates.

POWER COMPANIES PRESENT WOES

15. (SBU) Representatives of two U.S. power companies that have unsettled disputes with the Tamil Nadu Electricity Board (TNEB) on power pricing and capital costs, however, presented a less encouraging picture. ST-CMS sent notice to TNEB informing them of their decision to seek arbitration to finalize capital costs. They, however, also mentioned that they intend to talk to the state government to try and come to an understanding on the issue. CMS would also welcome DUSTRI Bhatia's raising their case with Tamil Nadu leadership when he visits Chennai at the end of November. Meanwhile, Covanta Energy has gone to court to block retroactive excise tax levies totaling 24 million dollars; early rulings in their favor have given them some hope that their arguments will prevail. Covanta has appealed to the Ministry of Finance to waive

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the imposition of excise duties on furnace oil used for generating power. The appeal is pending before the Union Finance Minister.

16. (U) Coincidentally, on November 8 post received from the state government a written reply to a July representation on the power issues. We will report that response septel, along with a more detailed update on the IPP issues.

7.(SBU) The power companies' reps believe that the state will face a power crisis in the next couple of years as there are no big projects under construction that will supply power exclusively to the state. According to the companies, the 4000 megawatts that Tamil Nadu officials tout will take two years to commission and in the meantime the state is likely to scramble for power as demand is growing exponentially, exceeding capacity.

"MOTOROLA SHOULD HAVE AVOIDED GOING TO COURT"

18. (SBU) With Kalanithi Maran, the Managing Director of Sun (TV) Network and brother of Union Telecom Minister Dayanidhi Maran, Davison raised the issues of cable broadcasting rates and of Motorola's recent disqualification from BSNL's bidding process. Maran commented that it was unwise on the part of Motorola to have gone to court as it will antagonize "the entire bureaucracy." He believes that the court is unlikely to reverse the decision and that even if it does, the issue would go for appeals and prolong indefinitely. Maran said that, instead, Motorola should have talked with the Ministry. He also indicated there could be an additional complicating factor behind the disqualification, promising to provide further details. Maran further stated that an out-of-court settlement might still be possible, but again gave no indication what such a settlement might look like.

19. (SBU) Very well informed on Center-State politics, Maran commented that the Congress-DMK relations within the UPA remain very good at the top level. He pointed out that the DMK is an indispensable ally of the Congress-led UPA government and that it enjoys the support of the Congress in the state. He also

acknowledged that the DMK government can survive even without the support of the Congress party as long as the other sections of its Tamil Nadu alliance are retained. Maran said the state leadership of the Congress party does not matter; they are divided and always bickering.

CENTER AND STATE WORKING TOGETHER

¶10. (SBU) COMMENT: The Center-State coordination, facilitated by the DMK's role in the state and Union governments, is striking. In fact it is more than a party activity: Union IT Minister Dayanidhi Maran, both Chief Minister Karunanidhi's confidante and grand-nephew, uses his position and influence to direct investments to his home state. Tamil Nadu, nonetheless, could progress even further if it would address its legacy issues and prevent a potential backlash as well as attract investment into its power and infrastructure sectors. END COMMENT.

¶11. (U) Econ Minister Counselor John Davison cleared this message.
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